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Timolyn Henry

From: Rob Hunter [rhunter@greencoastenergy.org]
Sent: Wednesday, October 25, 2006 11:12 AM
To: Filings@psc.state.fl.us
Subject: Proposed Amendments to Rule 25-17.0832, F.A.C., Firm Capacity and Energy Payments
Attachments: R Hunter Green Coast's Written Comments on proposed rule 25-17.0832.doc

Good morning,

Attached please find for electronic filing Green Coast Energy, Inc's prefiled comments for the upcoming workshop pertaining to the proposed amendments to Rule 25-17.0832. We have made all effort to submit these comments by the requested date, today October 25th, 2006. In addition to this electronic filing, physical copies are in transit to the FPSC Division of the Clerk and Administrative Services.

Please advise if any additional steps must be taken to make this submittal part of the docket.

Best regards,

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10/25/2006

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Proposed Amendments to Rule)
25-17.0832 – Firm Capacity and Energy)
Contracts)
_____)

DOCKET NO. 060555-EI
Submitted: October 23rd, 2006

COMMENTS AND SUGGESTIONS OF GREEN COAST ENERGY, INC
PERTAINING TO RULEMAKING ON STANDARD OFFER CONTRACTS
FOR RENEWABLE ENERGY

Green Coast Energy, Inc ("GCE") thanks the Commission and Staff for the opportunity to submit comments regarding the proposed amendments to Rule 25-17.0832. It is our hope that in making these comments we succeed in communicating to the Commission some of the basic requirements that renewable energy producers such as ourselves will need in a Standard Offer Contract in order to secure financing for such a project.

About GCE

By way of introduction, GCE is a corporation duly organized under and in good standing with the State of Florida. GCE was formed to focus on the development of alternative and renewable energy projects in Florida, and is currently seeking a negotiated contract with Florida Power and Light for firm capacity and energy of a 42 megawatt (gross) biomass facility.

The proposed renewable facility under development by Green Coast Energy is a 42 MW (gross) wood waste fueled electricity generating plant that will consume approximately 400,000 tons of cleaned construction, demolition, agricultural and other wood waste products per year. The environmentally sound and proven use of this wood waste as a renewable energy fuel source, will not only contribute to alleviating Florida's electricity generation dependence

DOCUMENT NUMBER-DATE

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on fossil fuels, but also and just as importantly, alleviate Florida's troubled existing and growing construction & demolition (C&D) waste reuse and disposal issues.

Overview of the Renewable Technology and Processes GCE Intends to Use

GCE's initial facility will be located on a site in Volusia County/Oak Hill, Florida.

The plant will be a 42 MW gross output rated (36 MW net) advanced technology biomass electric generation facility that will sell its power under a long term power purchase agreement to a neighboring utility interconnecting via the nearby 69kV transmission lines. Plant design is based on utilizing one bubbling bed boiler fueled primarily fueled by construction & demolition derived wood fuel. The waste gases will be exhausted through a limestone injection dry scrubber system to control sulfur dioxide and HCL emissions then to a pulse jet baghouse for particulate emissions control followed by an approximate 160 ft stack. Steam will be produced in the boiler at a pressure 1520 Psig and a temperature of 1000°F. The high pressure steam will be admitted to a single steam turbine with extractions for feedwater heating with a gross output of approximately 42 MW (50 MVA). The steam turbine will exhaust into the air cooled condenser system. The boiler system will be optimized utilizing selective non-catalytic reduction (SNCR) to reduce NOx emissions.

Electric power will be produced in the steam turbine generator at the nominal generator voltage. A plant switchyard will increase the voltage to 69 kV and an aerial transmission line will connect the plant switchyard to the point of interconnection (TBD). When the generator is off-line, parasitic power will be obtained from FPL by back feeding. Generator and miscellaneous cooling will all come from the auxiliary cooling water loop.

Summary of GCE's Position on Rulemaking

Per Section 366.91 of the Florida Statutes,

(3) On or before January 1, 2006, each public utility must continuously offer a purchase contract to producers of renewable energy. The commission shall establish requirements relating to the purchase of capacity and energy by public utilities from renewable energy producers and may adopt rules to administer this section. The contract shall contain payment provisions for energy and capacity which are based upon the utility's full avoided costs,

It is our understanding that the legislature made clear in F.S. 366.91 their desire to promote and foster the development of renewable energy projects in Florida to diversify our fuel source and reduce dependency on fossil fuels. GCE believes that in order for this to be implemented, incentives must be offered to encourage the development of these renewable facilities. If the State wishes for investors to bring hundreds of millions of dollars into Florida to invest in these projects, the Standard Offer Contract ("SOC") must be a document that the investors would consider to be finance-able. No renewable energy will be produced under a SOC that investors find onerous, and the entire effort by the legislature and PSC will have been for naught.

GCE believes that the Commission can adopt rules that require the SOC's filed by the Investor-Owned Utilities to be economically feasible and finance-able by incorporating the following elements:

Outline of Key Issues

- Flexibility of term (in years) of Standard Offer Contract, within reasonable parameters
- Option for long-term fixed energy payment, based on estimate of FULL avoided cost

- Flexibility in start-date at which renewable producer begins delivery of capacity and energy
- Choice of the avoided unit as basis for capacity and energy payments (with the date flexibility mentioned above)
- Subscription limit equal to avoided unit
- Distinction between Renewable Energy Producers from the 'Qualified Facilities' of old

1. Contract Term

GCE understands that the proposed rule modifies the minimum term from 5 years to 10 years, but we strongly urge the Commission to consider giving the renewable energy producer the flexibility to choose the contract term from the minimum up to the maximum term of the avoided unit's useful life. Many, if not most investors who are considering bringing their money to the State of Florida for renewable energy facilities will want to see a contract term equal to the useful life of the unit.

Financing a plant that will have a 30-year useful life based on a contract that only provides for 10 years of revenues is not an attractive prospect for potential financiers, and if approved will act as a disincentive for the development of renewable energy. On the other hand, allowing the renewable producer to choose the contract term will increase the ability to secure funding for these projects and will assist in meeting the policy goal of Section 366.91.

GCE has read the comments of IOU's and PSC Staff regarding increased risk from a longer contract term, and in response pose the following question: Is the risk to the ratepayers not the same as it would be if the avoided unit is built? If the payments are based upon the capacity and energy costs (or a fixed derivative of same) of the avoided unit, then the ratepayers are risk-neutral whether their electricity is coming from a renewable provider or

from a coal stack. The difference is that the energy is cleaner, the fuel source local, and in the case of GCE's biomass project it also alleviates problems associated with disposal of wood waste in landfills.

The legislature recognized these benefits when crafting 366.91, and I think we all realize the value of reducing our dependency upon fossil fuels.

2. Option for Long-Term Fixed Energy Payment

GCE strongly believes that the inclusion of an option for a fixed energy payment will increase the financeability of the SOC's AND provide a secure, price-stable source of electricity for the ratepayers. First, on the finance side, to secure funding for a project the revenues must exceed the expenses and provide for a return, subject to investor requirements. Before committing a hundred million dollars or more for a facility, the investor must see *locked-in* revenues that will cover the development, construction, operation and maintenance of the plant.

Having the energy payment (in \$/mwh) as an unknown variable in the projected cash flows is highly-discouraging, as the sale of electricity comprises the largest source of revenues from the project. We understand that 366.91 specifies the full avoided cost as the *basis* for the energy payments, and suggest to the Commission that the rulemaking include a provision that all IOU's offer in the SOC a payment option for a fixed energy payment over the contract life, *based upon* the full avoided cost of the selected unit.

As discussed above, risk is a two-edged sword, and having access to renewable energy at a fixed rate will allow the IOU's to provide security and stability to the ratepayers over a long-term. Currently, the cost of fuel is passed on directly to the customer by the IOU, who has little or no control over it. Thus have ratepayers' electric bills skyrocketed in times of high

fuel cost. There is the possibility that actual avoided costs might drop lower than the fixed rate, but it is just as, if not more likely, that actual avoided costs will spike upwards as fuel costs increase. A fixed electricity cost will do much to provide peace of mind to ratepayers who are currently at the mercy of volatile fuel commodity prices.

3. Flexibility in Start-Date

GCE would like to see in the rule governing SOC's the ability to begin delivering energy and firm capacity as soon as it is ready. For example, if GCE signs a standard offer contract to sell power to a utility with a 2015 avoided unit, and we know that we can have our renewable facility up and operating in 2011, we would like to be able to begin receiving payment for capacity *and* energy as soon as we begin to deliver it.

Considering that 'More renewables is better than less renewables', this flexibility in construction and choice of unit will clearly result in 'more renewables'.

4. Choice of Avoided Unit

It is our understanding that the proposed rule DOES advocate the option for the renewable producer to choose which avoided unit will serve as the basis for a SOC we execute. We concur with this recommendation, in coordination with our suggestion above to allow the renewable producer to begin delivering as soon as they are able, for the avoided unit that best fits their needs.

The ability to choose start date and avoided unit will be key in project feasibility and construction scheduling.

5. Subscription Limit

Although GCE is not in favor of subscription limits, based upon the language of 366.91 '...must *continuously* offer a purchase contract...', we feel that if a subscription limit is mandated, it should be equal to the avoided unit itself. For example, a subscription limit of 20 MW on a 250 MW avoided unit is unreasonable and a strong disincentive to renewables, but a subscription limit of 250 MW on the same avoided unit is acceptable.

It is our understanding that Staff has proposed subscription limits equal to the capacity of the avoided unit, and we agree that this is the best way to handle a subscription limit.

Finally, we concur with having negotiated contracts count towards the subscription limit because in many cases the renewable producer will want to negotiate with the utility on terms within the SOC. If the negotiated contract would not count towards the subscription limit, this would discourage the utility from negotiating or deviating even slightly from the SOC, which in turn harms the ability of the renewable producer to place a facility.

6. Distinction between a Renewable Producer and a Qualified Facility

GCE feels that renewable energy producers, as defined under Florida law, are substantially different than Qualified Facilities, as defined by PURPA 25 years ago for a purpose that truly has little relevance to this one. When setting the rules that will govern the SOC, we encourage the Commission to keep in mind the diverse benefits and advantages of renewable energy. It is our opinion that a renewable producer is more than just a 'QF with some extra electricity lying around', and should be worthy of consideration for new and innovative approaches (such as the above suggestions) to foster and encourage renewable energy projects here in Florida. Allow the QF to remain a creature of PURPA, and create new and separate rules that are more germane to the State's goals and desires for renewable energy.

7. Establishing a Renewable Portfolio Standard

GCE recommends that the Commission join the ranks of the states that have created Renewable Portfolio Standards (RPS) to achieve their goals in renewable energy. Concrete goals see results much more swiftly than vague ones, and more renewables are better than less renewables in a world powered mainly by highly-volatile and/or pollutant fossil fuels.

8. Method for Determining Sale/Right of First Refusal of T-RECs

It is our belief that the methodology for dealing with the T-RECs should be addressed in this rule, with multiple options available including the ones we discussed at the workshop on August 23rd. As an example, below is the T-REC clause from the FPL 2012 SOC (which we understand has not been approved, and has in fact been retracted by FPL). Specifically, we would like to see in the rule a provision *preventing* contracts from containing language such as 17.6.2 b)

17.6.2 Ownership and Offering For Sale Of Renewable Energy Attributes

- a. The REF retains any and all rights to own and to sell any and all environmental attributes associated with the electric generation of the facility, including but not limited to any and all renewable energy certificates, "green tags" or other tradable environmental interests (collectively "RECs"), of any description, provided that: (i) FPL shall have a right of first refusal with respect to any and all bona fide offers to purchase any RECs; and (ii) the REF shall not sell RECs to any party at a price less than that charged by FPL.
- b. Notwithstanding the provisions of the foregoing Section 17.6.2.(a), in the event that, after FPL has declined an offer to purchase RECs, the REF wishes to sell RECs to another party at a price less than that already contracted for by FPL, the REF may proceed with such sale so long as (i) the price paid by FPL for any and all future purchases of RECs from the REF shall be adjusted to be equal to the lowest price at which the REF agrees to sell RECs to another party; and (ii) the REF shall refund to FPL the amount by which any past FPL purchases of RECs from the REF exceeds the lowest price that the REF agrees to charge another buyer.

Per Section B above, it would appear that if the renewable energy producer sells T-RECs for several years to the IOU, but the market dips the next year and the REP has to sell to someone else at a lower price, the REP would have to retroactively refund the IOU for all the other years that the T-RECs commanded a higher market price. As the market for T-RECs continues to develop into a liquid market, the price *is* going to change year to year, month to month, and GCE believes that the PSC rule should acknowledge and address this issue.

We would also encourage the Commission to consider requiring a swift turn-around time for the utility to exercise or decline their Right of First Refusal, to ensure that market opportunities are not lost while the utility is contemplating purchase of the T-RECs.

Green Coast Energy, Inc respectfully requests that the Commission consider these comments and suggestions for incorporation in rule 25-17.0832, and hope that our viewpoint as a company in the midst of developing renewable projects is helpful in the Commission's policy-making endeavors. Once again, we would like to express our thanks to the Commission and Staff for the opportunity to submit these comments.

Respectfully submitted this day, October 23rd, 2006.

/s/ *Robert E. Hunter*

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